Telephony

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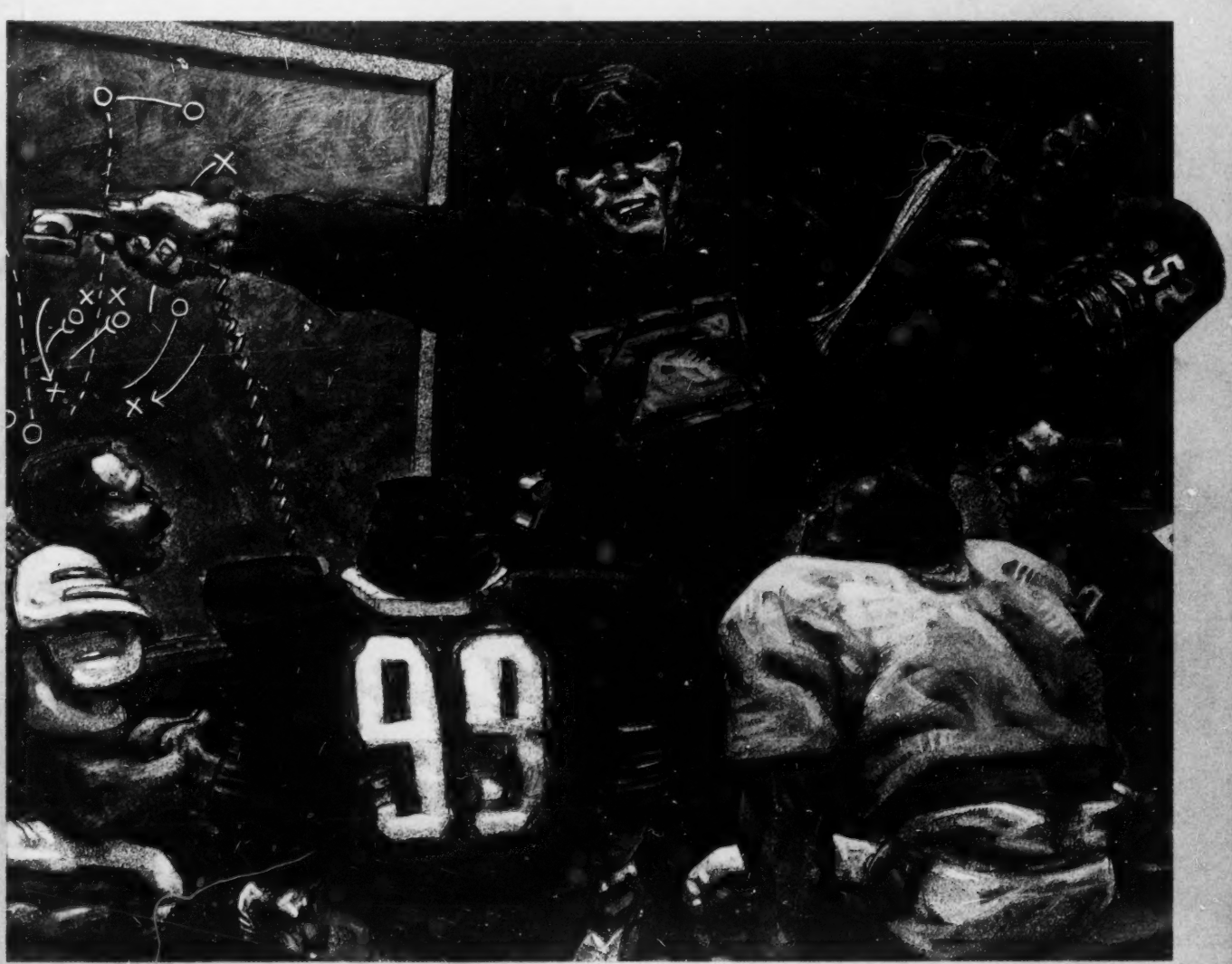

FO NETWORK SURVIVAL GAME PLAN

Telcos must have a strong defense to protect their networks from cable cuts and node failures

PICKETS POP UP AT AMERITECH

Strikes continue at PacTel and Nynex; SW Bell and U S West reach settlements

PACTEL INT'L SEEKS PCN LICENSE

RHC joins forces with Millicom, Matra and British Aerospace

MONDAY, AUGUST 21, 1989 Volume 217, No. 9

Telephony

INTEGRATING VOICE & DATA COMMUNICATIONS

Hey, listen up! We aren't going to have any fans if you guys can't defend our fiber optic network against node failures and cable cuts. If we're gonna survive out there, you've gotta follow a new protective game plan. Cover art by Alan Brunettin

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In My Opinion

Summertime blues

This has been a summer of discontent for those who favor regulatory reform within the local exchange network. Three separate events have converged to create a climate far less favorable to reform than that which existed only a few months ago.

First and foremost, of course, is the Department of Justice opinion, issued in July, that the Federal Communications Commission's plan to replace rate-of-return regulation for local exchange carriers with price caps violates federal antitrust law. Although not a definitive death knell for LEC price caps, it does throw at least a few shovels of dirt onto the coffin.

Also damaging is the news that New York Telephone, an incentive rate plan pioneer, may soon go hat in hand to the New York Public Service Commission begging for as much as $900 million in additional rates. Two years ago the company agreed to a rate moratorium, in exchange for the right to keep half of any profits above a set rate-of-return level. The NYPSC had agreed in 1987 to test the incentive waters, believing the widely held industry argument that regulating prices, not profits, would serve the public interest while giving the telco the incentive to operate more efficiently.

Both New York Tel and the NYPSC believed there would be excess revenues for stockholders and ratepayers to share. According to the telco, it hasn't worked out that way. Instead, New York Tel says it needs $350 million in rate adjustments this year, to avoid the $900-million rate increase in 1991, when the rate moratorium expires.

The third event was the Missouri PSC's June decision to reject Southwestern Bell's price cap-type plan and instead order a $101-million rate cut. This decision prompted Southwestern Bell to delay—and possibly shelve—a digital modernization plan that was one of the most aggressive of the Bell regional holding companies. The three-state plan would have involved as many as 600 switches, by industry supplier estimates, at a cost of up to $2 billion.

It is possible that state regulators in Kansas and Texas will accept the plan and that much of the digital switch procurement will proceed. Even so, the Missouri experience is a cautionary tale for the entire industry.

Clearly, there is much yet to be done on this front. At the federal level, LECs have lost their biggest price-cap advocate, former FCC Chairman Dennis Patrick, and may find his replacement, Alfred Sikes, less eager to battle Congress and the DOJ on this issue.

State regulators are the real key, however, and here again the battle remains uphill. Many eyes were trained on the New York experience, and it is likely that problems there will be a hot topic of discussion around many a public utility commission table.

Missouri regulators didn't reject modernization, but they insisted Southwestern Bell pay for the new switches out of its existing revenues, maintaining that the telco would reap the benefits of digital efficiencies. And they rejected in concept a Southwestern Bell plan, similar to the FCC's national plan, that would tie rate increases to the consumer price index, with a 3% productivity figure factored in. Instead, the commission said, rates should remain tied to Southwestern Bell's specific costs of providing service.

The New York and Missouri experiences show that the challenge remains to develop a plan that stimulates modernization of the network while offering protection to both ratepayers and shareholders. Perhaps California, home to other trends and innovations, can offer some hope with its pending incentive regulation study. After all, bad things are supposed to only come in threes.

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Telephony

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INTERTEC

Union walkout hits Ameritech; two RHCs reach settlement

Dawn Bushaus, Assistant Editor

Southwestern Bell and U S West reached tentative settlements with the Communications Workers of America shortly after their contracts expired last week. But union workers at the Ameritech companies walked out, bringing to four the number of Bell regional holding companies hit by strikes.

The major bargaining stumbling blocks to reaching new contracts at Bell Atlantic, Nynex, Pacific Telesis and the Ameritech companies are wages and health care.

Southwestern Bell and U S West workers settled for provisions similar, but not identical, to those contained in the CWA agreement reached a week earlier with BellSouth *(Telephony, Aug. 14, page 9)*.

Workers at Southwestern Bell will receive a 5.25% wage increase, which includes a $1000 bonus, effective upon ratification of the contract. During the second and third years of the contract, CWA members will receive 2.25% increases and a cost-of-living allowance. Cost-of-living increases in excess of $400 will be added to the base wage.

At U S West, workers will receive a 5% wage increase, which includes a $600 bonus. During the second year of the contract, they will receive a 2.5% increase and a 3% team incentive award. In the third year they will receive a 2.25% increase and a 3% team incentive award.

CWA employees at both telcos are scheduled to vote on ratification of the tentative settlements in mid-September.

At BellSouth workers will get a 4% increase in their base pay the first year. Bonus payments, which do not boost base salaries, are not part of the agreement. Employees can expect to receive increases ranging from 8% to 11% during the three-year contract.

At U S West and Southwestern Bell, CWA workers refused to back down on the issue of health care, and for the most part they were successful.

Health benefits at U S West remained mostly unchanged. According to a CWA spokesman, the RHC combined the best aspects of its three Bell operating company-CWA contracts to form the health care package. U S West bargained only regionally this year.

At Southwestern Bell, workers will not share the costs of health care premiums for dependents as the telco originally proposed, and they have gained 20% more coverage for vision and dental care. But workers there who participate in the already-established preferred provider plan can expect to pay slightly more for physician visits and prescriptions.

Workers who choose their own physicians received some improved benefits, including coverage of psychological and chemical dependency treatment.

BellSouth, Southwestern Bell and U S

CONTRACT SCOREBOARD

Company	Number of employees CWA	IBEW	Status	Settlement terms
BELL ATLANTIC	49,000	11,000		
BELLSOUTH	64,000		settled	8%-11% wage increase
PACIFIC TELESIS	42,400		on strike	
Pac Bell Directories		1600	settled	details not available
NYNEX	40,000	20,000	on strike	
AMERITECH	35,100	13,800		
Illinois Bell	3000	13,000	on strike settled	(IBEW) 9% wage increase includes $1000 bonus
Indiana Bell	4300	400	on strike settled	(IBEW) details not available
Wisconsin Bell	4000		on strike	
Ohio Bell	10,200		on strike	
Michigan Bell	13,000		on strike	
Ameritech Services	800	200	on strike settled	(IBEW) details not available
U S WEST	41,000		settled	10% wage increase includes $600 bonus

CWA workers picket an Illinois Bell facility in Chicago.

West all negotiated new family care packages into their agreements. Workers at the three companies may now take up to one year off with the guarantee of employment upon return to care for newborn or adopted children or for a family member who is ill.

The issue of a lump-sum bonus payment that is not included in the base wage caused CWA workers at the Ameritech companies—Illinois Bell, Wisconsin Bell, Indiana Bell, Ohio Bell, Michigan Bell and Ameritech Services—to walk off their jobs at midnight Aug. 12.

"It distorts the package and does not give employees enough protection," said Greg Kenefick, CWA spokesman for Ameritech workers. "When the [bonus] money is gone, it's gone."

Although the CWA rejected proposals from the Ameritech companies, International Brotherhood of Electrical Workers employees settled with Illinois Bell, Indiana Bell and Ameritech Services.

At Illinois Bell, where the IBEW represents the majority of the union work force, the IBEW voted 3-to-1 last month to ratify a new contract. Most IBEW workers were crossing CWA picket lines and reporting for work, Illinois Bell said.

Illinois Bell, which offered CWA members a contract similar to the IBEW's, was surprised the CWA rejected its proposal.

"We were very surprised and disappointed," said Patricia Montgomery, senior director of media relations for Illinois Bell. "We really felt we were very close to an agreement."

Illinois Bell has offered CWA workers a 5% wage increase for the first year, which includes a $1000 bonus, and additional 2% increases in 1990 and 1991. The proposal also includes cost-of-living adjustments. Other Ameritech BOCs have offered similar proposals, but the CWA has said it will not back down.

Kenefick said the CWA has sent telegrams to the state public utility commissions in the Ameritech region asking that they investigate the possibility of rate rollbacks during the strike because of the money the telcos save by not paying salaries to striking employees.

"There is clearly a decline of service [during a strike]," said Gaye Williams Mack, a CWA spokeswoman in Washington. "Why should customers pay the same amount of money?"

But Ken Hoyt, a telecommunications consultant with Arthur D. Little, said he believes the CWA's efforts to win support from state commissions is a ploy.

"I think that's a grandstand play," he said, adding that, because the nation's telecommunications network is so highly automated, customers will not feel much effect from strikes unless they continue for several months.

"In the short term, a strike is one of the best things that could ever happen to a company," Hoyt said.

Bell company management employees "rise to crises," he said, adding they will keep the companies afloat provided the strikes are short-lived.

It is still unclear, however, whether the strikes will be short term. At press time, Bell Atlantic, Nynex and Pacific Telesis had resumed at least informal bargaining. But no settlements were in sight.

The Ameritech companies had not resumed any talks with the CWA. ■

PacTel enters battle for PCNs

Paul Travis, Executive News Editor

Pacific Telesis International became the latest U.S.-based company to enter the race for one of the United Kingdom's personal communications network licenses when it announced last week it had joined an international consortium to seek a PCN license.

PacTel International said the group is headed by the Space Systems unit of British Aerospace Ltd., which has a 35% interest. PacTel International will hold a 20% share. Other partners include Millicom U.K. Ltd. with a 14% share, and Matra Communications S.A. of France, which holds a 10% share. The remaining 21% is reserved for future partners.

Two or three PCN licenses are expected to be awarded by the end of the year as part of an effort to promote competition with existing U.K. cellular systems. The new, two-way mobile systems are expected to begin operations in the early 1990s.

One of the PCN licenses has been reserved for a consortium led by Cable & Wireless plc. Motorola has joined the C&W group, and discussions are continuing with other potential partners.

At least two other groups—both with Bell regional holding companies as partners—have announced their intentions to seek a PCN license (*Telephony, July 31, page 17*). U S West has teamed up with STC Telecommunications, part of the STC Group, to bid for a license. BellSouth has joined forces with GEC and Plessey to submit a bid.

"We believe this exciting new technology could have a major impact on the way people communicate. Just as cellular networks have made it easier for people on the move to keep in touch, PCN will further expand the public's communications options," said C. Lee Cox, group president of the diversified businesses unit of Pacific Telesis.

Cox also noted that the move to seek a

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